



Organizational Structure and Design

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Organization

- An organization is a social arrangement which pursues collective goals, controls its own performance, and has a boundary separating it from its environment.
- The word has been derived from the Greek word organon, which has been derived from the better-known word ergon.
- There are many types of organizations, such as: corporations, governments, non-governmental organizations, international organizations, armed forces, charities, not-for-profit corporations, partnerships, cooperatives, and universities etc.
- The broader analysis of organizations is commonly referred to as organizational structure, organizational studies, organizational behaviour, or organization analysis.
- A number of different perspectives exist, some of which are:
 1. From a process-related perspective, an organization is viewed as an entity and is being re-organized, and the focus is on the organization as a set of tasks or actions.
 2. From a functional perspective, the focus is on how entities like businesses or state authorities are used.
 3. From an institutional perspective, an organization is viewed as a purposeful structure within a social context.

Organization

- Management is interested in organization mainly from an instrumental point of view. For a company, organization is a means to an end to achieve its goals, which are to create value for its stakeholders (stockholders, employees, customers, suppliers, community).
- In general, an "organization" may be more loosely understood as the planned, coordinated and purposeful action of human beings working through collective action to reach a common goal or construct a tangible product. This action is usually framed by formal membership and form (institutional rules).



Purposes of Organizing

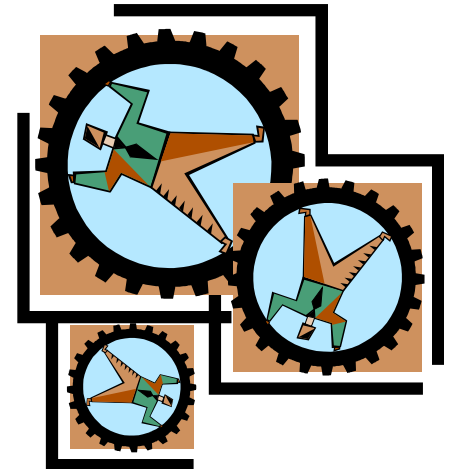
- Divides work to be done into specific jobs and departments.
- Assigns tasks and responsibilities associated with individual jobs.
- Coordinates diverse organizational tasks.
- Clusters jobs into units.
- Establishes relationships among individuals, groups, and departments.
- Establishes formal lines of authority.
- Allocates and deploys organizational resources.

Defining Organizational Structure

- Organizational Structure
 - The formal arrangement of jobs within an organization.
- Organizational Design
 - A process involving decisions about six key elements:
 - Work specialization
 - Departmentalization
 - Chain of command
 - Span of control
 - Centralization and decentralization
 - Formalization

Organizational Structure

- Work Specialization
 - The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.
 - Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.



Organization Structure (cont'd)

- Chain of Command
 - The continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization and clarifies who reports to who.



Organization Structure (cont'd)

- Authority
 - The rights inherent in a managerial position to tell people what to do and to expect them to do it.
- Responsibility
 - The obligation or expectation to perform.
- Unity of Command
 - The concept that a person should have one boss and should report only to that person.

Organization Structure (cont'd)

- Span of Control
 - The number of employees who can be effectively and efficiently supervised by a manager.
 - Width of span is affected by:
 - Skills and abilities of the manager
 - Employee characteristics
 - Characteristics of the work being done
 - Similarity of tasks
 - Complexity of tasks
 - Physical proximity of subordinates
 - Standardization of tasks

Exhibit 10–3 Contrasting Spans of Control

Members at Each Level		
Organizational Level	(Highest) Assuming Span of 4	Assuming Span of 8
	1	1
	2 4	8
	16	64
	4 64	512
	256	4,096
	6 1,024	
	4,096	
	(Lowest)	
	Span of 4:	Span of 8:
	Employees: = 4,096	Employees: = 4,096
	Managers (level 1–6) = 1,365	Managers (level 1–4) = 585

Organization Structure (cont'd)

- Centralization
 - The degree to which decision-making is concentrated at a single point in the organizations.
 - Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders.
- Decentralization
 - Organizations in which decision-making is pushed down to the managers who are closest to the action.
- Employee Empowerment
 - Increasing the decision-making authority (power) of employees.

Organization Structure (cont'd)

- Formalization
 - The degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.
 - Highly formalized jobs offer little discretion over what is to be done.
 - Low formalization means fewer constraints on how employees do their work.

Organizational Design Decisions

- Mechanistic Organization
 - A rigid and tightly controlled structure
 - High specialization
 - Rigid departmentalization
 - Narrow spans of control
 - High formalization
 - Limited information network (downward)
 - Low decision participation
- Organic Organization
 - Highly flexible and adaptable structure
 - Non-standardized jobs
 - Fluid team-based structure
 - Little direct supervision
 - Minimal formal rules
 - Open communication network
 - Empowered employees

Exhibit 10–6 Woodward's Findings on Technology, Structure, and Effectiveness

	Unit Production	Mass Production	Process Production
Structural characteristics	Low vertical differentiation Low horizontal differentiation Low formalization	Moderate vertical differentiation High horizontal differentiation High formalization	High vertical differentiation Low horizontal differentiation Low formalization
Most effective structure	Organic	Mechanistic	Organic

Types of Organizational Structures

- An organization can be structured in many different ways, depending on their objectives.
- The structure of an organization will determine the modes in which it operates and performs.
- Organizational structure formally determines the hierarchy within an organization. In other words, who reports to whom?
- Some companies refer to this as the organizational chart.
- There are 7 types of Organization Structure
 - Line
 - Line & staff
 - Functional
 - Divisional
 - Project
 - Matrix
 - Free-form

Common Organizational Designs

- Traditional Designs
 - Simple structure
 - Low departmentalization, wide spans of control, centralized authority, little formalization
 - Functional structure
 - Departmentalization by function
 - Operations, finance, human resources, and product research and development
 - Divisional structure
 - Composed of separate business units or divisions with limited autonomy under the coordination and control the parent corporation.

Exhibit 10–7 Strengths and Weaknesses of Traditional Organizational Designs

Simple Structure

Strengths: Fast; flexible; inexpensive to maintain; clear accountability.

Weaknesses: Not appropriate as organization grows; reliance on one person is risky.

Functional Structure

Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment) and employees are grouped with others who have similar tasks.

Weaknesses: Pursuit of functional goals can cause managers to lose sight of what's best for overall organization; functional specialists become insulated and have little understanding of what other units are doing.

Divisional Structure

Strengths: Focuses on results—division managers are responsible for what happens to their products and services.

Weaknesses: Duplication of activities and resources increases costs and reduces efficiency.

Team Structure

- **What it is:** A structure in which the entire organization is made up of work groups or teams.
- **Advantages:** Employees are more involved and empowered. Reduced barriers among functional areas.
- **Disadvantages:** No clear chain of command. Pressure on teams to perform.

Matrix-Project Structure

- What it is:** A structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
- **Advantages:** Fluid and flexible design that can respond to environmental changes. Faster decision making.
 - **Disadvantages:** Complexity of assigning people to projects. Task and personality conflicts.

Boundaryless Structure

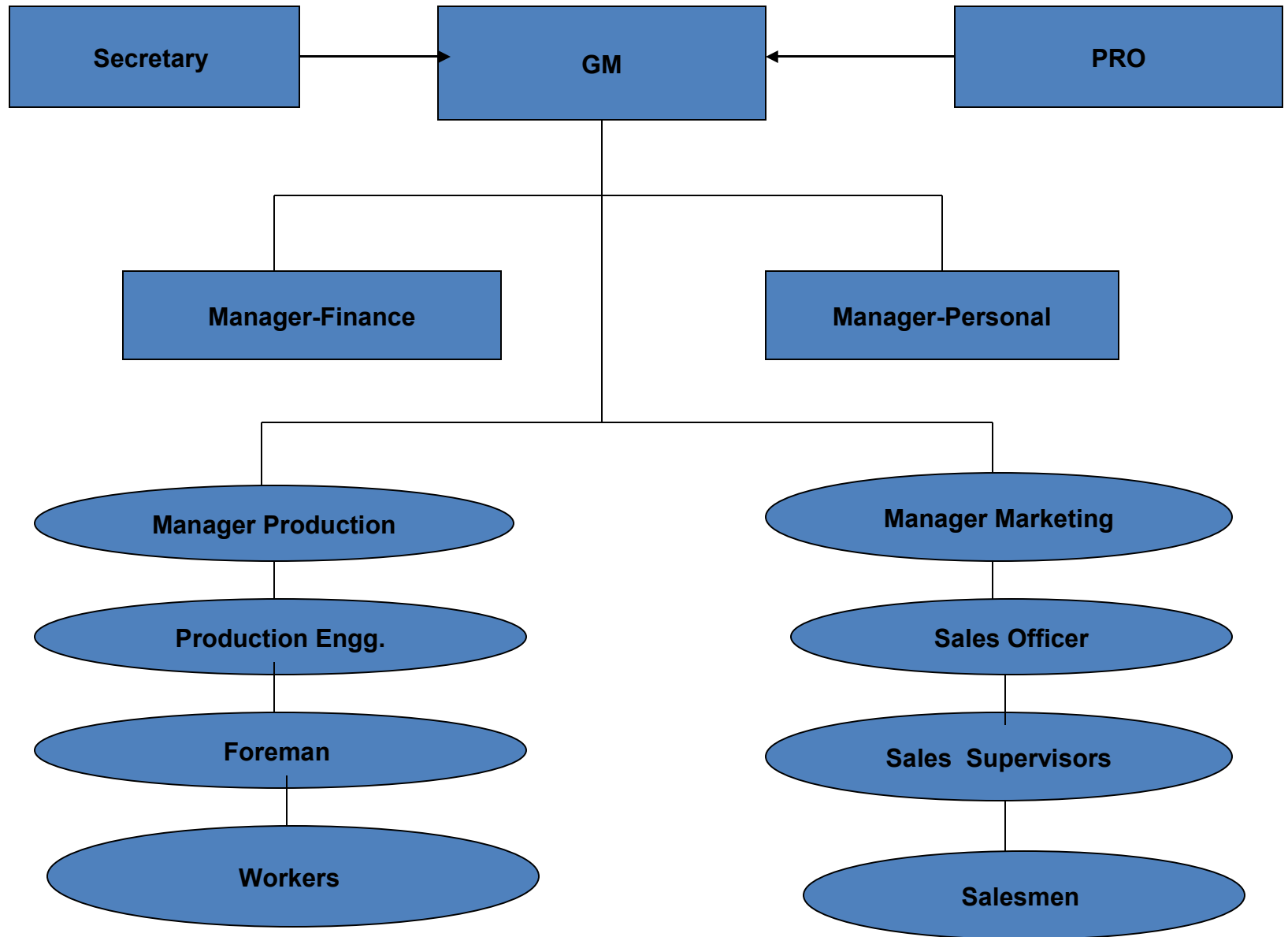
- | | |
|-------------------------|--|
| What it is: | A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual and network types of organizations. |
| • Advantages: | Highly flexible and responsive. Draws on talent wherever it's found.. |
| • Disadvantages: | Lack of control. Communication difficulties.. |

Line Organization Structure

- **Line functions** are those which have direct responsibility for accomplishing the objectives of the enterprise.
- The oldest as well as most common and simplest form of organisation .
- This form of organisation is otherwise called military organisation or scalar type of organisation.
- The line structure is defined by its clear chain of command This is the kind of structure that has a very specific line of command
- Here the chief executive leads the organisation.
- Line of authority flows vertically from the top most executive to the lowest subordinate throughout the entire organizational structure.
- The authority is greatest at the top and reduces through each successive level down the organizational scale.
- In this form of organisation, a supervisor exercise direct supervision over a subordinate,
- The departmental heads are independent of each other and enjoy equal status.
- This kind of structure is suitable for smaller organizations like small accounting firms and law offices.
- This is the sort of structure that allows for easy decision making, and also very informal in nature.
- They have fewer departments, which makes the entire organization a much decentralized one.
- A variation of the pure line organization is the departmental line organization, under which the business enterprise is divided into several departments and the authority flows downward from the General Manager through the departmental managers to the lower subordinates.

Line & Staff Organization Structure

- **Line functions** are those which have direct responsibility for accomplishing the objectives of the enterprise
- **Staff** refers to those elements of the organization that help the line of work most effectively in accomplishing the primary objectives of the enterprise
- Organizational structure involves, in addition to task organizational boundary considerations, the designation of jobs within an organization and the relationships among those jobs. There are numerous ways to structure jobs within an organization, but two of the most basic forms include simple line structures and line-and-staff structures.
- In a **line organization**, top management has complete control, and the chain of command is clear and simple. Examples of line organizations are small businesses in which the top manager, often the owner, is positioned at the top of the organizational structure and has clear "lines" of distinction between him and his subordinates.



Merits of Line and Staff Organization

- **Relief to line of executives-** In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.
- **Expert advice-** The line and staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff specialist and line officers can concentrate on execution of plans.
- **Benefit of Specialization-** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
- **Better co-ordination-** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing co- ordination in work as every official is concentrating in their own area.
- **Benefits of Research and Development-** Through the advice of specialized staff, the line executives, and the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.
- **Training-** Due to the presence of staff specialists and their expert advice serves as ground for training to line officials. Line executives can give due concentration to their decision making. This in itself is a training ground for them.
- **Balanced decisions-** The factor of specialization which is achieved by line staff helps in bringing co- ordination. This relationship automatically ends up the line official to take better and balanced decision.
- **Unity of action-** Unity of action is a result of unified control. Control and its affectivity take place when co- ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

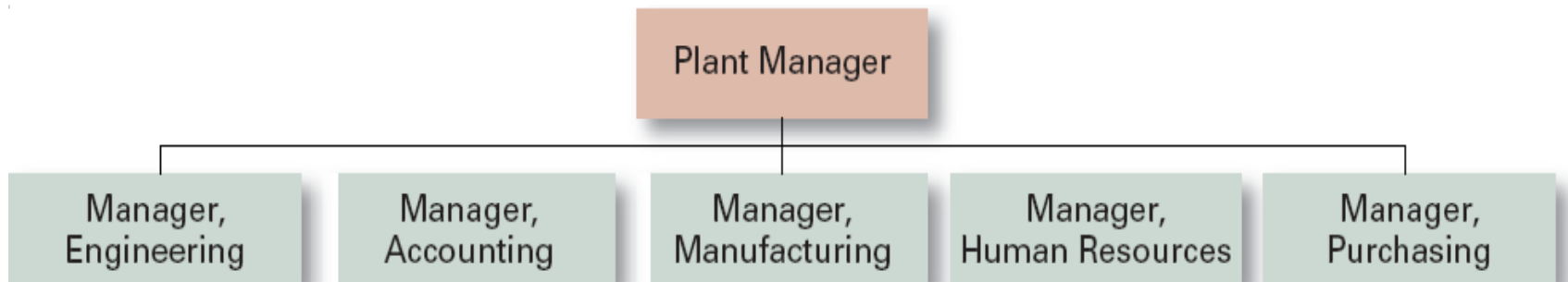
Demerits of Line and Staff Organization

- **Lack of understanding-** In a line and staff organization, there are two authority flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.
- **Lack of sound advice-** The line official get used to the expertise advice of the staff. At times the staff specialist also provide wrong decisions which the line executive have to consider. This can affect the efficient running of the enterprise.
- **Line and staff conflicts-** Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co- ordination which hampers a concern's working.
- **Costly-** In line and staff concern, the concerns have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited finance.
- **Assumption of authority-** The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.
- **Staff steals the show-** In a line and staff concern, the higher returns are considered to be a product of staff advice and counseling. The line officials feel dissatisfied and a feeling of distress enters a concern. The satisfaction of line officials is very important for effective results.
- **Slow decision-making-** The decision making process becomes slower in this type of organizational structure because of the layers and guidelines that are typical to it, and let's not forget the formality involved.

Functional Organizational Structure

- Functional structure is created by grouping the activities on the basis of functions required for the achievement of organizational objectives.
- Functions are classified into
 - “Basic”(essential: e.g. production, marketing, in manufacturing organization),
 - “Secondary”(subparts :e.g. marketing is further divided into market research, advertising, sales...etc) &
 - “Supportive” (e.g. finance, accounting, personnel, industrial relations)functions according to their nature and importance.
- Authority relationships in functional structure may be in the form of line, staff & functional.
- Required when small org. grows & business activities become more & more complex.
- Works better if org. has one major product or similar product line.

Functional Departmentalization



- **Advantages**

- Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
- Coordination within functional area
- In-depth specialization

- **Disadvantages**

- Poor communication across functional areas
- Limited view of organizational goals

Characteristics of functional structure:

- 1.Specialization by functions
- 1.Emphasize on sub goals
- 1.Pyramidal growth of the organization
- 1.Line and Staff division
- 1.Functional authority relationships among various departments.
- 1.Limited span of management and tall structure.

Divisional Structures

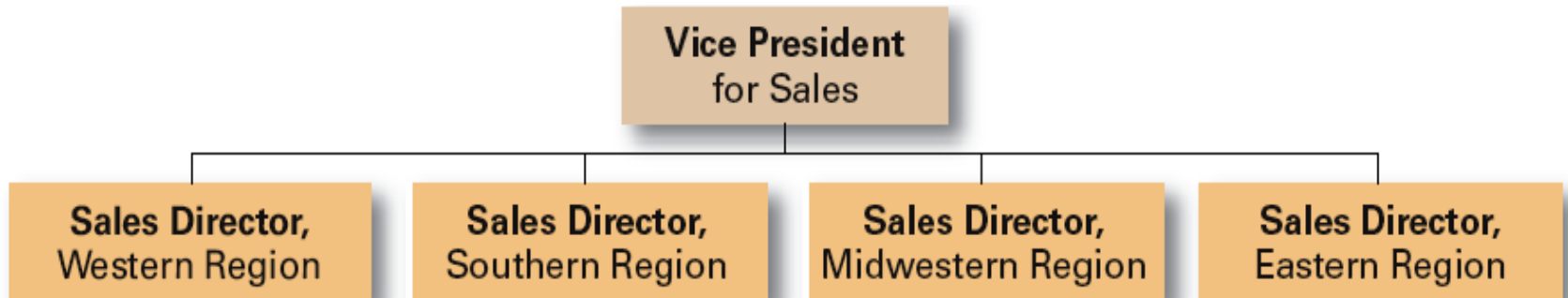
division is a collection of functions working together to produce a product.

- Divisions create smaller, manageable parts of a firm.
 - Divisions develop a business-level strategy to compete.
 - A division has marketing, finance, and other functions.
 - Functional managers report to divisional managers who then report to corporate management.
- Product structure: divisions created according to the type of product or service.
 - Geographic structure: divisions based on the area of a country or world served.
 - Market structure: divisions based on the types of customers served.

Geographic Structure

- Geographic structure groups employees together based upon specific geographic location. This is often used by large companies that operate in many areas. (Northern division and Orissa division etc.)
- Eg: an automobile company with a divisional structure might have one division for SUVs, another division for subcompact cars, and another division for sedans. Each division would have its own sales, engineering and marketing departments.

Geographical Departmentalization

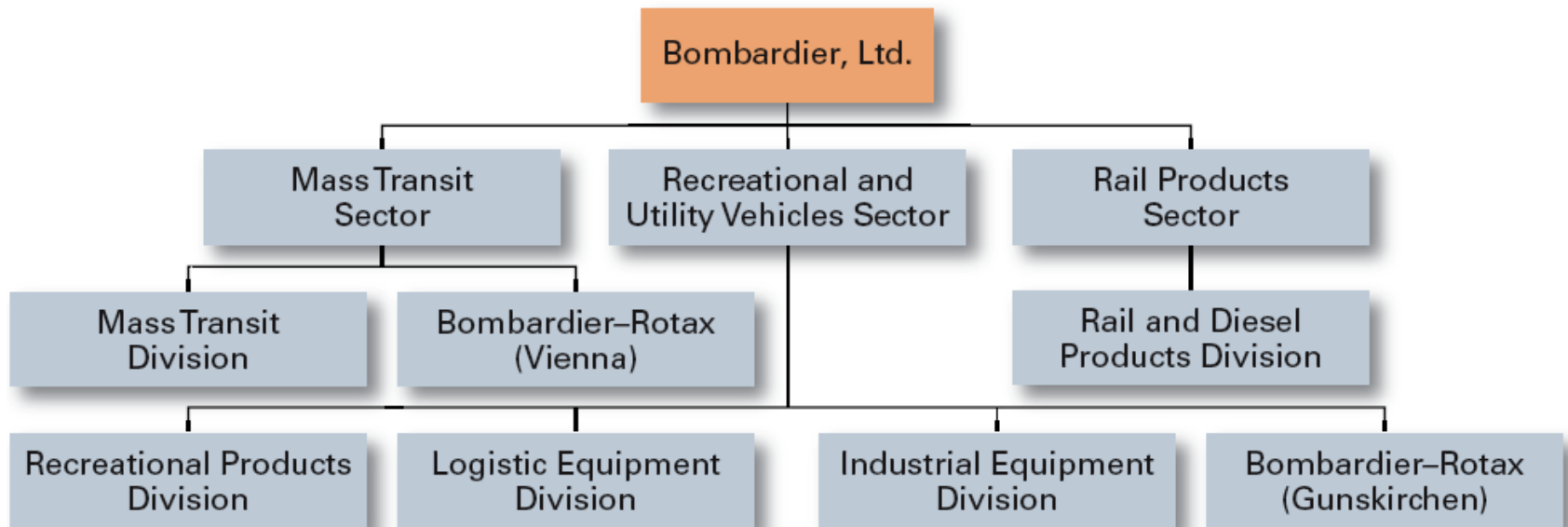


- **Advantages**
 - More effective and efficient handling of specific regional issues that arise
 - Serve needs of unique geographic markets better
- **Disadvantages**
 - Duplication of functions
 - Can feel isolated from other organizational areas

Product Structure

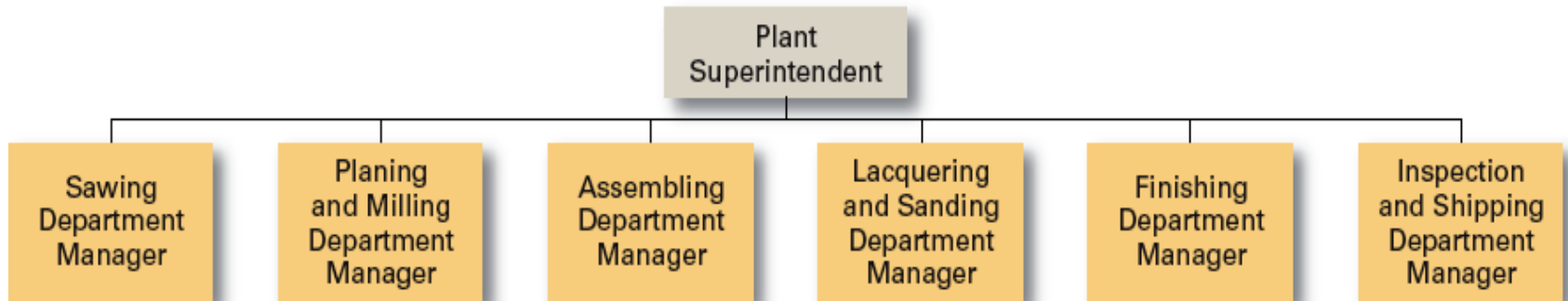
- Product departmentalization involves the grouping of all activities necessary to manufacture a product or product line.
- Preferred for product expansion & diversification when manufacturing & marketing characteristics of each product are of primary concern.
- Used when the product is relatively complex & a great deal of capital is required for plant and facilities.
- Each product division contains the functions necessary to that service the specific goods or services it produces

Product Departmentalization



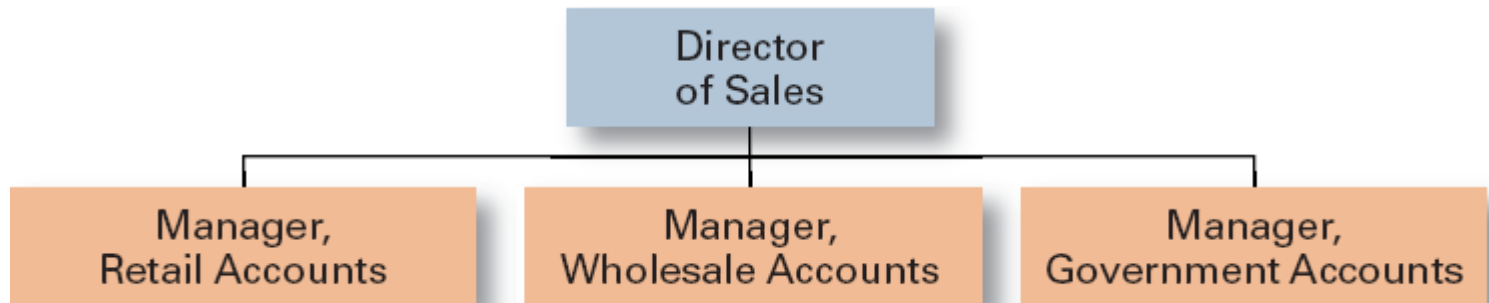
- + Allows specialization in particular products and services
- + Managers can become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

Process Departmentalization



- + More efficient flow of work activities**
- Can only be used with certain types of products**

Customer Departmentalization



- + Customers' needs and problems can be met by specialists**
- Duplication of functions**
- Limited view of organizational goals**

Contemporary Organizational Designs

- Team structures
- Hybrid Organization
- Matrix and project structures
- Boundary less Organization
 - Virtual Organization
 - Network Organization
 - Modular Organization
 - The Learning Organization

Self-Managing Teams

- Customer focus and fast changing environments require decisions at lower levels in an organization
- Decentralizes decision authority in the teams
- Decision authority in these teams can focus on customers, processes, and product design

Self-Managing Teams (Cont.)

- Often cross-functional membership
- Helps flatten an organization by removing a layer of management
- Results in a nimble organization that can respond to fast changing customer needs

Hybrid Organization

- Hybrid design uses both functions and divisions
- Managers use a hybrid design to get the benefits and reduce the weaknesses of the two configurations
- The divisions decentralize some functions, and the headquarters location centralizes others
- Centralized functions often are the costly ones

Hybrid Organization

- People in different parts of the organization fulfill different requirements
- Functional areas reward technical expertise
- Functional specialists often support the divisions
- Divisions do the primary work of the organization

Hybrid Organization

- Strategy: Focused on many products or services
- External environment: Fast changing, moderate to high uncertainty, complex
- Technical process: Both routine and nonroutine; high interdependence with functions and divisions
- Size: Large

Hybrid Organization

- Strengths
 - Focuses on products, services, and customers
 - Adapts well to complex environments
 - Economies of scale: expensive shared resources are centralized and support all divisions
- Weaknesses
 - Focus on division goals can lose total organization view
 - Non-uniform application of organizational policies
 - Potential for high administrative overhead if staff expands without control
 - Potential conflict between division managers and corporate headquarters. Managers want autonomy; headquarters wants control

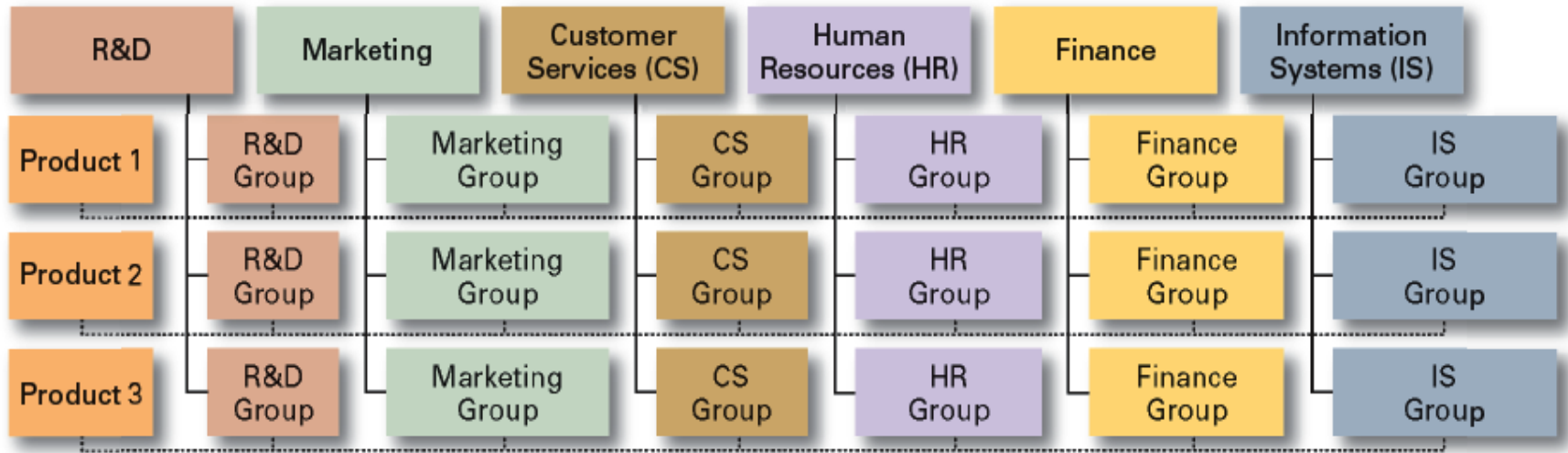
Matrix

Organizational Design

- Used when two sectors of the external environment demand management attention
- Typically responding to the customer and technical parts of the environment
 - Customers have special needs
 - Technology changes fast
- Emerged during the 1950s within the U.S. aerospace industry

Exhibit 10–9

An Example of a Matrix Organization



Matrix

Organizational Design (Cont.)

- Rejects the unity of command principle described in Chapter 1 of the text book
- Uses multiple authority structures, so that many people report to two managers
- People from different functional areas work on various projects

Matrix

Organizational Design (Cont.)

- Each person has at least two supervisors or managers. One supervisor is in the functional area and the other is in a project
- Mixture of people from the functional areas varies according to the project needs
- Multiple reporting relationships are a basic feature of matrix organizations

Matrix

Organizational Design (Cont.)

- Conditions under which an organization may choose a matrix design
 - Pressures from the external environment for a **dual focus**
 - **High uncertainty** within the multiple sectors of the external environment
 - **Constraints** on human and physical resources

Matrix

Organizational Design (Cont.)

- High conflict potential because of multiple authority relationships
- Managers need well-developed conflict management skills
- Demand high levels of coordination, cooperation, and communication
- Requires high levels of interpersonal skill

Matrix

Organizational Design (Cont.)

- Different matrix uses and forms
 - Within specific functional areas such as marketing. Managers responsible for a brand or group of brands bring all marketing skills together to focus on the products
 - Temporary forms for specific projects
 - Permanent forms for the organization's on-going work

Matrix

Organizational Design (Cont.)

- Strengths
 - Responsive, flexible, efficient use of costly resources
 - Potentially high levels of human motivation and involvement
 - Managers can respond fast to market changes
 - Shares scarce and expensive resources
 - People get information about a total project, not only about their specialty

Matrix

Organizational Design (Cont.)

- Weaknesses
 - High levels of ambiguity because of multiple authority relationships
 - Ambiguity can encourage power struggles among managers
 - Multiple authority relationships can give opposing demands to people
 - High conflict potential can reach dysfunctional levels and act as significant stressors for people in matrix organizations

Boundary less Organization

- An flexible and unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers.
- Removes internal (horizontal) boundaries:
 - Eliminates the chain of command
 - Has limitless spans of control
 - Uses empowered teams rather than departments
- Eliminates external boundaries:
 - Uses virtual, network, and modular organizational structures to get closer to stakeholders.

The Virtual Organization

- A temporary network of companies or people that focus on reaching a specific target
- Information technology links members into a network no matter where they are in the world
- Enter agreements to get needed skills or resources
- Little direct control over functions done by other members of the network
- An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise.

The Virtual Organization (Cont.)

- Features a need for high trust among members
- Need conflict management and negotiation skills
- Interdependent in reaching a mutually desired goal

Removing External Boundaries

- **Network Organization**
 - A small core organization that outsources its major business functions (e.g., manufacturing) in order to concentrate what it does best.
- **Modular Organization**
 - A manufacturing organization that uses outside suppliers to provide product components for its final assembly operations.

Today's Organizational Design Challenges

- Keeping Employees Connected
 - Widely dispersed and mobile employees
- Building a Learning Organization
- Managing Global Structural Issues
 - Cultural implications of design elements

Organizational Designs (cont'd)

- The Learning Organization
 - An organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees.
 - Characteristics of a learning organization:
 - An open team-based organization design that empowers employees
 - Extensive and open information sharing
 - Leadership that provides a shared vision of the organization's future, support and encouragement
 - A strong culture of shared values, trust, openness, and a sense of community.